

>>> On 6/26/2008 at 2:51 PM, <jpage@loc.gov> wrote:
RE: FASAB Exposure Draft, Statement of Federal Financial Accounting Concepts
(SFFAC), "Distinguishing Basic Information, Required Supplementary Information, and
Other Accompanying Information," Dated March 26, 2008

Dear Mr. Allen and Ms. Payne:

The Library of Congress (the Library) is pleased to provide comments on the above referenced Exposure Draft. Our comments follow below

Background of the Library of Congress

As a legislative branch agency, the Library of Congress (the Library) is not required to follow the executive agency accounting principles established by the Comptroller General under 31 U.S.C. 3511 or the standards developed by the Federal Accounting Standards Advisory Board (FASAB). However, the Library maintains its fund balances with the Department of the Treasury and submits information required to incorporate its financial and budgetary data into the overall federal government structure. For purposes of financial management and reporting, the Library has issued a regulation (LCR 1510), which adopts the federal standards for financial reporting and internal controls in a manner consistent with a legislative agency.

Although not required to prepare audited financial statements, the Library adheres to the spirit of many of the executive branch's initiatives to continuously improve financial management and public transparency of its financial activities, as evidenced by the Library's receipt of its twelfth consecutive unqualified opinion on its audited financial statements (including receiving its twelfth while implementing SFFAS No. 29 one year early). However, because the preparation and audit of the financial statements are not legislatively mandated, all activities associated with the audited financial statements may be placed at a priority equal to other competing administrative activities; this renders the financial statement activities particularly vulnerable to pressure from resource availability and cost-benefit considerations. Therefore, the Library's goal is to prepare audited financial statements and receive an unqualified audit opinion, but to do so in a manner that maximizes economy and efficiency; it is in this context that the Library submits comments on the Exposure Draft.

Q1. The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information or other accompanying information (See the section, Distinguishing Basic Information, RSI and OAI, beginning on page 13).

a. Do you agree with the process presented? If not, please explain your reasons.

The Library disagrees with certain concepts in paragraphs 73B. and 73C. on page 14. Paragraph 73B. states, "Basic information is information which is essential for the financial statements and notes to be presented in conformity with GAAP." If basic information is "essential," then it should not be classified first as Required Supplemental

Information (RSI) because it is "experimental in nature . . . while more experience is gained through resolution of accounting issues." If the information is truly essential, but the information is experimental in nature and requires the resolution of accounting issues, then the information should still be classified as basic and an adjustment should be made instead by delaying the required implementation date.

By delaying the required implementation date, the Library does not intend that implementation be delayed in every circumstance for information that is experimental in nature or subject to accounting issues; instead, the accounting standard should encourage or permit early implementation for the reporting of basic information. Early implementation would allow preparers and auditors to gain valuable experience at a level of scrutiny appropriate to basic information, while providing maximum flexibility for the preparer according to budget, personnel, and time constraints.

Staggering implementation by first requiring information to be reported as RSI for a number of periods prior to requiring information to be reported as basic information (as was done in SFFAS No. 29, Heritage Assets and Stewardship Land) may have two disadvantages: (1) it may not provide preparers and auditors with experience at the appropriate level of scrutiny (RSI as opposed to basic) and (2) it may consume resources for reporting the information as RSI that could have been better spent on preparations to report the information as basic, perhaps even with early implementation. The Library was pleased to implement certain basic reporting requirements of SFFAS No. 29 one year early in its Fiscal Year 2007 audited financial statements.

b. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?

The Library agrees in principle with the majority of the factors mentioned in Table 1. Our comments on specific factors follow:

Please consider rewording the sixth factor, "Level of importance the Board wishes to be communicated in the auditor's report." Please reconsider whether it is appropriate for the Board to influence the format or content of the independent auditor's report. Perhaps the factor could be reworded as, "Level of importance the Board wishes to communicate to the auditor."

Please consider rewording the eighth factor, "Extent to which the information interests a wide audience (rather than specialists)." Although this factor seems in line with good common sense, it may appear counter-intuitive when applied to some of the financial statements and footnotes. Perhaps the factor could be reworded as, "Extent to which the information may interest a wider audience (rather than specialists)."

Please consider rewording the ninth factor, "Extent to which there are not alternative sources of reliable information." To improve the syntax of the factor, perhaps the factor

could be reworded as, "Extent to which there is a lack of alternative sources of reliable information."

Please consider removing the eleventh factor, "Experience among users, preparers, and auditors with the information." As described in our response to question a. above, if basic information is truly essential, but the information is experimental in nature and requires the resolution of accounting issues, then the information should still be classified as basic and an adjustment should be made instead by delaying the required implementation date. The information should not be classified as RSI during an interim period; instead, early implementation of reporting basic information should be allowed or encouraged. Generally, most preparers and auditors will lack experience in dealing with new requirements.

c. Are there additional factors that should be considered? If so, what are they, and how would you describe them?

The Board may wish to consider the following additional factors as described below:

The basis of accounting used to compile the information: e.g., cash, budgetary, or proprietary basis. The basis of accounting may indicate RSI versus basic (or Other Accompanying Information, OAI) depending upon the nature of the information. Some types of information may be more relevant and reliable under one particular basis of accounting as opposed to another basis of accounting.

The number of future time periods involved in accounting information affected by future projections. As time periods extend farther into the future, information may be considered to be less relevant and reliable.

The impact of market factors and market volatility (or the lack of a market) that may affect particular reportable items (e.g., the effect of changes in prices for commodities, foreign currencies, interest rates, and inflation).

Finally, please consider whether designations as basic versus RSI may have unintended consequences and the likelihood that the unintended consequences may occur. Such unintended consequences may include requiring more reliable, less relevant basic information that may have less value to the average reader at the expense of providing more relevant, less reliable RSI information that may have greater value to the average reader.

The Library of Congress thanks the Board for the opportunity to comment on the Exposure Draft. Any questions or comments may be addressed to Jay S. Miller, CPA, Financial Reports Officer, Office of the Chief Financial Officer, at jami@loc.gov or (202) 707-3548.

Sincerely,

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